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## ANNUAL AUDITED REPORT

FORM X-17A-5

PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/16 AND ENDING 12/31/16  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: JAMES I. BLACK &amp; COMPANY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

311 SOUTH FLORIDA AVENUE

(No. and Street)

LAKELAND

FLORIDA

33801

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

NATASHA STEADMAN

813-688-4163

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

HACKER, JOHNSON &amp; SMITH, PA

(Name - if individual, state last, first, middle name)

500 N WESTSHORE BLVD, STE 1000 TAMPA

FL

33609

(Address)

(City)

(State)

(Zip Code)

## CHECK ONE:



Certified Public Accountant



Public Accountant



Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of  
information contained in this form are not required to respond  
unless the form displays a currently valid OMB control number.

## OATH OR AFFIRMATION

I, GERALD BLACK, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of JAMES I BLACK & COMPANY, as of DECEMBER 31, 20 16, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:


\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



Notary Public



Signature

PRESIDENT, CEO

Title

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Cash Flows
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☒ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Report of Independent Registered Public Accounting Firm.



\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

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JAMES I. BLACK & COMPANY  
AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

December 31, 2016



**HACKER, JOHNSON & SMITH PA**

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Certified Public Accountants

JAMES I BLACK & COMPANY

FOCUS REPORT

DECEMBER 31, 2016

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# James I. Black & Company

CORRESPONDENTS  
IN NEW YORK, CHICAGO  
AND OTHER MAJOR CITIES

INCORPORATED  
Telephone: (863) 686-4163  
FAX: (863) 688-8908  
311 South Florida Avenue  
Lakeland, FL 33801

STOCKS, BONDS  
AND  
MUTUAL FUNDS  
Member SIPC

We enclose the following documents:

- \_\_\_ Form X-17A-5 Part III Securities and Exchange Commission – facing page  
for Annual Audited Report – all mailings
- \_\_\_ Audited Financial Statements for year ended 12/31/16
- \_\_\_ SIPC Assessment Report
- \_\_\_ Anti-Money Laundering procedures and policy audit by Independent CPA.

Our Form X-17A-5 Part III Report was overnighted to you 2/21/17

James I Black & Company

Gerald L Black ,  
CEO & President

Natasha Steadman,  
CCO & Financial Principal

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STATEMENT OF FINANCIAL CONDITION  
JAMES I. BLACK & COMPANY  
DECEMBER 31, 2016

ASSETS

Cash and cash equivalents	\$	531,192
Cash segregated for regulatory purposes		150,000
Deposits with clearing organizations		186,459
Receivables:		
Broker-dealers and clearing organizations		87,253
Brokerage customers		170,400
Non-customer, secured		-0-
Refundable income taxes		41,844
Exchange memberships		35,053
Furniture and equipment, net of accumulated depreciation of \$129,106		9,752
TOTAL ASSETS	\$	<u>1,211,953</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Payables:		
Broker-dealers and clearing organizations	\$	-0-
Brokerage customers		157,434
Accounts payable and accrued expenses		42,967
Income taxes payable		-0-
Total Liabilities		<u>200,401</u>

Economic dependence and commitments and contingencies (Notes G and K)

Stockholders' Equity

Common stock, no par value; 500 shares authorized, issued and outstanding at a stated value of \$100 per share		50,000
Additional paid-in capital		155,977
Retained earnings		805,575
Total Stockholders' Equity		<u>1,011,552</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	<u>1,211,953</u>

Read Notes to Financial Statements

STATEMENT OF INCOME  
JAMES I. BLACK & COMPANY  
Year Ended December 31, 2016

REVENUES

Commissions and fees	\$ 1,214,295
Interest	6,239
Other	2,999
	<u>1,223,533</u>

EXPENSES

Employee compensation and benefits	1,018,672
Floor brokerage, exchange and clearance fees	127,204
Communications and data processing	101,456
Occupancy	98,946
Other	72,888
	<u>1,419,166</u>
	<u>(195,633)</u>

INCOME (LOSS) BEFORE INCOME TAXES

Provision (benefit) for income taxes	<u>(37,844)</u>
NET INCOME (LOSS)	<u>\$ (157,789)</u>

Read Notes to Financial Statements

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
 JAMES I. BLACK & COMPANY  
 Year Ended December 31, 2016

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at December 31, 2015	\$ 50,000	\$ 155,977	\$ 963,364	\$ 1,169,341
Net income (loss)	<u>-0-</u>	<u>-0-</u>	<u>(157,789)</u>	<u>(157,789)</u>
Balance at December 31, 2016	<u>\$ 50,000</u>	<u>\$ 155,977</u>	<u>\$ 805,575</u>	<u>\$ 1,011,552</u>

Read Notes to Financial Statements



STATEMENT OF CASH FLOWS  
JAMES I. BLACK & COMPANY

Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Net income (loss)	\$ (157,789)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation	8,153
(Increase) decrease in operating assets:	
Cash segregated for regulatory purposes	(25,000)
Receivables:	
Brokers-dealers and clearing organizations	101,999
Brokerage customers	77,800
Non-customer, secured	32,111
Increase (decrease) in operating liabilities:	
Payables:	
Brokers-dealers and clearing organizations	-0-
Brokerage customers	(1,779)
Accounts payable and accrued expenses	(46,233)
Income taxes payable	(53,177)

NET CASH PROVIDED (USED) BY  
OPERATING ACTIVITIES (63,915)

CASH FLOWS FROM INVESTING

Acquisition of furniture and equipment	-0-
NET CASH (USED) BY INVESTING ACTIVITIES	-0-

NET INCREASE (DECREASE) IN CASH (63,915)

CASH AT BEGINNING OF YEAR	595,107
CASH AT END OF YEAR	<u>\$ 531,192</u>

SUPPLEMENTAL DISCLOSURES

Interest paid	\$ -0-
Income tax paid	<u>\$ 15,333</u>

Read Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS

### JAMES I. BLACK & COMPANY

December 31, 2016 and for the Year then Ended

#### NOTE A - - ORGANIZATION AND NATURE OF BUSINESS

Organization - James I. Black & Company, Inc. (the Company) is a securities broker-dealer with its primary office and operations in Lakeland, Florida.

The Company was incorporated in 1964 in the state of Florida. The Company is registered as a broker-dealer with the United States Securities and Exchange Commission (SEC), in the states of Florida, Texas, Nevada and New York with approximately 90% of its customers being located in Florida. The primary regulators are the Financial Industry Regulatory Authority Inc. (FINRA) and for municipal securities, the Municipal Securities Rulemaking Board. Additionally, the Company is regulated by the Commodities Futures Trading Commission (CFTC) with respect to the futures and commodities trading activities it conducts as an introducing broker. The CFTC has designated the National Futures Association as the primary regulator for its futures and commodities trading activities.

#### NOTE B - - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - The Company considers all highly liquid investments with original maturities of three months or less that are not segregated and on deposit for regulatory purposes to be cash equivalents. Cash and cash equivalents include money market funds and deposits with banks.

Cash segregated for regulatory purposes - In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, the Company as a broker-dealer is subject to requirements related to maintaining cash in a segregated reserve account for the exclusive benefit of its clients. Segregated cash as of December 31, 2016 was \$150,000.

Exchange memberships - The Company's exchange memberships includes a minority ownership interest in an exchange and provides the Company with the right to conduct business on such exchange is stated at cost (which approximates fair value).

Furniture and equipment - Furniture and equipment are stated at cost. Depreciation is determined using the declining - balance method over the estimated useful lives of the assets, ranging from three to seven years. Furniture and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

NOTES TO FINANCIAL STATEMENTS  
JAMES I. BLACK & COMPANY

NOTE B -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments - Certain financial instruments reflected on Statement of Financial Condition (e.g. Cash and cash equivalents, Cash segregated for regulatory purposes, Deposits with clearing organizations, Receivables, Payables and Accounts payable and accrued expenses) are recorded at cost, which approximates fair value due, among other factors, to their short-term nature.

Advertising - The Company's policy is to expense advertising costs as the costs are incurred. Advertising expense was \$599 for the year ended December 31, 2016.

Bad debts - The Company records bad debts using the direct write-off method (which approximates allowance method) whereby receivables are charged to bad debt expense when they are determined to be uncollectible. The Company historically has not experienced significant bad debts. As of December 31, 2016, no allowance for uncollectible receivables was deemed necessary.

Securities transactions - Customers' securities transactions and related commission revenues and expenses of the Company, as well as, Principal transactions are recorded on the date that they settle. The financial statements, however, are adjusted for any material effect arising from the use of a trade-date basis for transactions as required by accounting principles generally accepted in the United States of America. For 2016, no material effect requiring adjustment to the financial statements was noted.

Commissions and fees revenue - Commissions and fees revenue are earned primarily from transactions executed over various exchanges, the sale of investment company shares (mutual funds) and executed commodity futures transactions for acting as an "introducer" broker.

Long-lived assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of long-lived assets to future undiscounted net cash flows expected to be generated. If such assets are considered to be impaired, the impairment recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets.

NOTES TO FINANCIAL STATEMENTS  
JAMES I. BLACK & COMPANY

NOTE C - - RECEIVABLE FROM AND PAYABLE TO BROKERAGE CUSTOMERS

Accounts receivable from and payable to brokerage customers include amounts arising from cash and margin transactions. Securities owned by brokerage customers are held as collateral for such receivables. Such collateral is not reflected in the accompanying financial statements.

NOTE D - - SECURITIES OWNED

The Company may at times, own securities but maintains a general policy which avoids trading for its own account and the investment risks associated with such activity. During 2016 the Company realized no gains or losses from any trading activity. The company did not have any long or short security positions at December 31, 2016.

NOTE E - - BANK LOANS

The Company maintains a \$300,000 credit line for customer margin with a commercial bank in Chicago, Illinois. The credit line is scheduled to expire in May 30, 2017. Such margin loans would be collateralized by customer securities and used to finance customer margin account debit balances. Borrowings under this facility do not qualify as regulatory capital. No loans were outstanding under this credit facility during 2016 or as of December 31, 2016. The interest rate charged is the bank's prime rate (3.75% at December 31, 2016).

To satisfy the margin requirement of client option transactions with the Options Clearing Corporation (OCC), the Company had an agreement with Interactive Brokers during 2016 to clear customer transactions on an omnibus basis. Accordingly, the Company provides customer securities and customer funds to Interactive Brokers as collateral for the customer's positions and option margin requirements.

NOTE F - - LIABILITIES SUBORDINATED

The Company had no liabilities subordinated to claims of general creditors as of December 31, 2016, nor were there any increases or decreases in such liabilities during the year. Accordingly, no statement of changes in liabilities subordinated is presented.

NOTES TO FINANCIAL STATEMENTS  
JAMES I. BLACK & COMPANY

NOTE G - - COMMITMENTS AND CONTINGENT LIABILITIES

The Company has an operating lease for office space. In addition, the aggregate future minimum annual rental commitment under the lease, which expires on August 1, 2017, is \$1,300 per month. Future minimum payments under non-cancelable leases are as follows:

<u>December 31</u>	<u>Amount</u>
2017	\$ 9,100
Thereafter	-0-
	<u>\$ 9,100</u>

NOTE H - - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Company purchases and sells securities and commodities as either principal or agent on behalf of its cash or margin customers. If either the customer or counter-party fails to perform, the Company may be required to discharge the obligations of the non-performing party. In such circumstances, the Company may sustain a loss if the market value of the security or futures contract is different from the contract value of the transaction.

NOTE I - - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits in excess of federally insured limits during the year. Concentration of credit risks as of December 31, 2016, amounted to cash deposits of \$281,192.

NOTE J - - FAIR VALUE OF ASSETS AND LIABILITIES

Fair Value accounting establishes a hierarchy for disclosing assets and liabilities measured at fair value based on the inputs used to value them. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are based on market pricing data obtained from sources independent of the Company. A quoted price in an active market provides the most reliable evidence of fair value and is generally used to measure fair value whenever available.

NOTES TO FINANCIAL STATEMENTS  
JAMES I. BLACK & COMPANY

NOTE J - - FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

Unobservable inputs reflect management's judgment about the assumptions market participants would use in pricing the asset or liability. Where inputs used to measure fair value of an asset or liability are from different levels of the hierarchy, the asset or liability is categorized based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input requires judgment. The fair value hierarchy includes three levels based on the objectivity of the inputs as follows:

Level 1 inputs are unadjusted quoted prices in active markets as of the measurement date for identical assets or liabilities that the Company has the ability to access. The Company does not have any financial assets or liabilities utilizing Level 1 inputs as of December 31, 2016.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in less active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The Company does not have any financial assets or liabilities utilizing Level 2 inputs as of December 31, 2016.

Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The Company does not have any financial assets or liabilities utilizing Level 3 inputs as of December 31, 2016.

NOTE K - - RELATED-PARTY TRANSACTIONS AND ECONOMIC DEPENDENCE

ITB Capital Management LLC (ITB) a major customer of the Company is a commodity futures pool operator which is partially owned by an employee-stockholder of the Company. ITB manages investment funds for qualified individuals and other entities within the various ITB Funds. ITB transacted their business through the National Futures Association during 2016 with the firm R.J. O'Brien and Associates, LLC (RJO). A portion of the commissions and fees generated by ITB transactions through RJO were earned by the Company for acting as "introducer" broker. The Company earned approximately \$370,000 of such revenue for the year 2016. The Company incurred employee-stockholder compensation expense of approximately \$165,000 related to such revenue for the year 2016. In addition, ITB paid directly to a third party \$25,200 of communication expenses incurred by the Company. ITB's payment was based on usages agreed upon between the Company and ITB.

NOTES TO FINANCIAL STATEMENTS  
JAMES I. BLACK & COMPANY

NOTE K - RELATED-PARTY TRANSACTIONS AND ECONOMIC DEPENDENCE (CONTINUED)

The "non-customer, secured" receivables account, in the 2015 statement of financial condition, represented a margin account balance for a non-employee stockholder of the Company and as such is not considered a brokerage customer. This balance was paid in full during 2016.

The Company leases office space on an annual basis from an entity owned by two of its stockholders. The rental expense of \$20,500 is included in occupancy expense for the year ended December 31, 2016.

Under accounting guidelines, the Company is deemed to have a "concentration of major customers" for 2016. ITB Funds accounted for approximately 31% of commissions and fees for 2016.

NOTE L -- INCOME TAXES

The components of the provision (benefit) for corporate income taxes for 2016, based upon the Company electing to carryback the 2016 net operating loss to tax years 2014 and 2015 (fully utilized loss), are as follows:

Current - Federal (benefit)	\$ (37,844)
Current - State (benefit)	-0-
	<u>\$ (37,844)</u>

A reconciliation of the expected and the reported provision for corporate income tax for 2016 are as follows:

Income taxes (benefit) expected based upon statutory rates	\$ (40,443)
Effect of (non-taxable) nondeductible and other items,	2,599
State income tax , net of federal tax benefit	-0-
Provision (benefit) for income taxes	<u>\$ (37,844)</u>

In accordance with GAAP, deferred income tax assets and liabilities are computed annually for the differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to reverse. Management believes any such differences are immaterial to the overall financial statements.

NOTES TO FINANCIAL STATEMENTS  
JAMES I. BLACK & COMPANY

NOTE L - - INCOME TAXES (CONTINUED)

GAAP requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are more-likely-than-not of being sustained upon examination by the applicable tax authority, based on the technical merits of the tax position, and then recognizing the tax benefit that is more-likely-than-not to be realized. Tax positions deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current reporting period. Management believes any such positions would be immaterial to the overall financial statements.

The Company's Federal and Florida income tax returns are subject to examination by taxing authorities for a period of three years from the date they are filed. As of December 31, 2016, the years 2013 through 2015 are subject to examination.

NOTE M - - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1). As a result, the Company is required to maintain a minimum net capital level as follows as of December 31, 2016:

Net capital	\$ 862,053
Net capital requirement	<u>250,000</u>
Excess net capital	<u>\$ 612,053</u>

NOTE N - - COMPUTATION OF RESERVE REQUIREMENTS

As of December 31, 2016, the Company had a required reserve requirement computation of \$17,391, pursuant to Rule 15c3-3 of the Securities and Exchange Commission, which was appropriately satisfied with an amount on deposit of \$150,000 as of December 31, 2016.

NOTE O - - SAVINGS INCENTIVE MATCH PLAN FOR EMPLOYEES

During 2004, the Company established a Savings Incentive Match Plan for Employees (SIMPLE - IRA), whereby the employees may elect to contribute up to \$15,500 (including catch-up contributions for employees over age 50) of their gross wages upon meeting age and length of service requirements. The Company matches employee contributions up to 3% of electing employees' wages. Employer contributions to the Plan totaled \$12,859 for the year ended December 31, 2016.



NOTES TO FINANCIAL STATEMENTS  
JAMES I. BLACK & COMPANY

NOTE P -- SUBSEQUENT EVENTS

As required, management has evaluated events through February 15, 2017, the date on which the financial statements were available to be issued. As a result of such evaluation, management has determined that no recognized (Type I) or non-recognized (Type II) subsequent events have taken place.

SUPPLEMENTARY FINANCIAL INFORMATION  
PURSUANT TO RULE 17a-5 OF THE  
SECURITIES EXCHANGE ACT OF 1934

JAMES I BLACK & COMPANY  
As of December 31, 2016

SCHEDULE I  
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1  
OF THE SECURITIES EXCHANGE COMMISSION

JAMES I BLACK & COMPANY

As of December 31, 2016

Stockholders' equity		\$ 1,011,552
Deductions and charges		
Non-allowable assets		
Exchange memberships	\$ 35,053	
Furniture and equipment	9,752	
Refundable income taxes	41,844	
Other receivables	62,850	
		<u>149,499</u>
Net capital before haircuts on security positions		<u>862,053</u>
Less:		
Haircuts on security positions		<u>-0-</u>
Net capital		<u>\$ 862,053</u>
Aggregate indebtedness		<u>\$ 200,401</u>
Minimum net capital required		<u>\$ 250,000</u>
Excess net capital		<u>\$ 612,053</u>
Net capital less 120% of minimum net capital required		<u>\$ 562,053</u>
Ratio: Aggregate indebtedness to net capital	<u>23.25%</u>	

RECONCILIATION WITH COMPANY'S COMPUTATION  
(Included in Part II of Form X-17A-5 as of December 31, 2016)

Net capital as reported in Company's Part II (unaudited FOCUS report)	\$ 862,053
Adjustments	<u>-0-</u>
Net capital per above	<u>\$ 862,053</u>

SCHEDULE II  
COMPUTATION OF DETERMINATION OF RESERVE REQUIREMENTS UNDER  
RULE 15c3-3 OF THE SECURITIES EXCHANGE COMMISSION

JAMES I BLACK & COMPANY

As of December 31, 2016

Credit balances:

Free credit balances and other credit balances in customer's securities accounts	\$ 157,434
Customers' securities failed to receive	-0-
Total credit items	<u>157,434</u>

Debit balances:

Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection, net of deductions pursuant to Rule 15c3-3	168,696
Other - Concentration Charges	(28,127)
Other	302
Total debit items	<u>140,871</u>

RESERVE COMPUTATION

Excess of total credits over total debits	<u>\$ 16,563</u>
105% of excess of total credits; required reserve deposit	<u>\$ 17,391</u>
Amount held on Deposit in Reserve Bank Account 12/31/16	<u>\$ 150,000</u>

RECONCILIATION WITH COMPANY'S COMPUTATION

(Included in Part II of Form X-17A-5 as of December 31, 2016)

Required deposit as reported in Company's Part II (unaudited FOCUS report)	\$ 17,391
Adjustments	-0-
Required deposit per this computation	<u>\$ 17,391</u>

SCHEDULE III

INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS UNDER  
RULE 15c3-3 OF THE SECURITIES EXCHANGE COMMISSION

JAMES I BLACK & COMPANY

As of December 31, 2016

	<u>Market Value</u>	<u>Number of items</u>
1) Customer's fully paid and excess margin securities not in the Company's possession or control as of December 31, 2016 but for which instructions to reduce possession or control had been issued as of December 31, 2016, but for which the required action was not taken within the time frames specified under Rule 15c3-3.	None	None
2) Customer's fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of December 31, 2016 excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3.	None	None

SCHEDULE IV

SCHEDULE OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION FOR  
CUSTOMERS' REGULATED COMMODITY FUTURES AND OPTIONS ACCOUNTS

JAMES I BLACK & COMPANY

As of December 31, 2016

The Company is exempt from making the daily computations of segregation and secured amount requirements pursuant to Section 4d(2) of the Commodity Exchange Act and Regulation 3.7 and the regulations there under, and the segregation of funds and secured amounts based upon such computations. As an introducing broker-dealer, the Company clears all commodities transactions with and for customers on a fully disclosed basis with a clearing broker-dealer, and promptly transmits all customer funds and securities to the clearing broker-dealer which carries all the accounts of such customers and maintains and preserves such books and records thereto.

# James I. Black & Company

CORRESPONDENTS  
IN NEW YORK, CHICAGO  
AND OTHER MAJOR CITIES

INCORPORATED  
Telephone: (863) 686-4163  
FAX: (863) 688-8908  
311 South Florida Avenue  
Lakeland, FL 33801

STOCKS, BONDS  
AND  
MUTUAL FUNDS  
Member SIPC

## Schedule V

### Report on Internal Control over Compliance

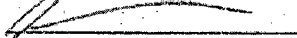
February 15, 2017

**James I Black & Company** (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). As required by 17 C.F.R. § 240.17a-5(d)(1) and (3), the Company states as follows:

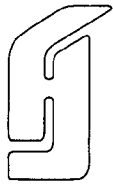
- (1) The Company has established and maintained Internal Control Over Compliance, as that term is defined in paragraph (d)(3)(ii) of Rule 17a-5.
- (2) The Company's Internal Control Over Compliance was effective during the most recent fiscal year ended December 31, 2016.
- (3) The Company's Internal Control Over Compliance was effective as of the end of the most recent fiscal year ended December 31, 2016;
- (4) The Company was in compliance with 17 C.F.R. § 240.15c3-1 and 17 C.F.R. §240.15c3-3(e) as of the end of the most recent fiscal year ended December 31, 2016; and
- (5) The information the Company used to state that the Company was in compliance with 17 C.F.R. §240.15c3-1 and 17 C.F.R. §240.15c3-3(e) was derived from the books and records of the Company.

#### **James I Black & Company**

I, Gerald L. Black, swear (or affirm) that, to my best knowledge and belief, this Compliance Report is true and correct.

By: 

Title: President; CEO



## HACKER, JOHNSON & SMITH PA

Fort Lauderdale  
Orlando  
Tampa

Certified Public Accountants

### Report of Independent Registered Public Accounting Firm

To the Stockholders  
James I. Black & Company  
Lakeland, Florida

We have audited the accompanying statement of financial condition of James I. Black & Company (the "Company") as of December 31, 2016, and the related statements of income, changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

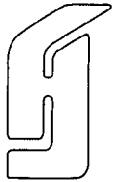
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Computation of Net Capital under Rule 15c3-1 of the Securities and Exchange Commission, The Computation of Determination of Reserve Requirements under Rule 15c-3 of the Securities and Exchange Commission, Information Relating to Possession or Control Requirements under Rule 15c3-3 of the Securities Exchange Commission and the Schedule of Segregation Requirements and Funds in Segregation for Customers' Regulated Commodity Futures and Option Accounts have been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with 17 C.F.R. § 240.17a-5 of the Securities and Exchange Commission. In our opinion, the Computation of Net Capital under Rule 15c3-1 of the Securities and Exchange Commission, The Computation of Determination of Reserve Requirements under Rule 15c-3 of the Securities and Exchange Commission, Information Relating to Possession or Control Requirements under Rule 15c3-3 of the Securities Exchange Commission and the Schedule of Segregation Requirements and Funds in Segregation for Customers' Regulated Commodity Futures and Option Accounts are fairly stated, in all material respects, in relation to the financial statements as a whole.

HACKER, JOHNSON & SMITH PA  
Tampa, Florida  
February 15, 2017





## HACKER, JOHNSON & SMITH PA

Fort Lauderdale  
Orlando  
Tampa

Certified Public Accountants

### Report of Independent Registered Public Accounting Firm on Examination Engagement on Internal Control Over Compliance

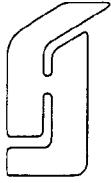
To the Stockholders  
James I. Black & Company  
Lakeland, Florida:

We have examined James I. Black & Company's statements, included in the accompanying Report on Internal Control over Compliance, that (1) James I. Black & Company's internal control over compliance was effective during the most recent fiscal year ended December 31, 2016; (2) James I. Black & Company's internal control over compliance was effective as of December 31, 2016; (3) James I. Black & Company was in compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2016; and (4) the information used to state that James I. Black & Company was in compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3 (e) was derived from James I. Black & Company's books and records. James I. Black & Company's management is responsible for establishing and maintaining a system of internal control over compliance that has the objective of providing James I. Black & Company with reasonable assurance that noncompliance with 17 C.F.R. § 240.15c3-1, 17 C.F.R. § 240.15c3-3, 17 C.F.R. § 240.17a-13, § 240.10b-10, that requires account statements to be sent to the customers of James I. Black & Company will be prevented or detected on a timely basis. Our responsibility is to express an opinion on James I. Black & Company's statements based on our examination.

We conducted our examination in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the examination to obtain reasonable assurance about whether James I. Black & Company's internal control over compliance was effective as of and during the most recent fiscal year ended December 31, 2016; James I. Black & Company complied with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2016; and the information used to assert compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e) as of December 31, 2016 was derived from James I. Black & Company's books and records. Our examination includes testing and evaluating the design and operating effectiveness of internal control over compliance, testing and evaluating James I. Black & Company's compliance with 17 C.F.R. §§ 240.15c3-1 and 240.15c3-3(e), determining whether the information used to assert compliance with 240.15c3-1 and 240.15c3-3(e) was derived from James I. Black & Company's books and records, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, James I. Black & Company's statements referred to above are fairly stated, in all material respects.

HACKER, JOHNSON & SMITH PA  
Tampa, Florida  
February 15, 2017



**Report of Independent Registered Public Accounting Firm on Control  
Activities for Safeguarding Securities**

Board of Directors  
James I. Black & Company  
Lakeland, Florida

In planning and performing our audit of the financial statements of James I. Black & Company for the year ended December 31, 2016, in accordance with the standards of the Public Company Accounting Oversight Board (United States), we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e)
2. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System
4. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3

The management of the Company is responsible for establishing and maintaining an internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's previously mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

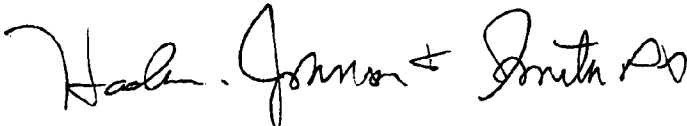
A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a significant deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented or detected and corrected on a timely basis.

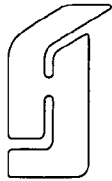
Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2016, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Hacker, Johnson & Smith PA".

HACKER, JOHNSON & SMITH PA  
Tampa, Florida  
February 15, 2017



**Report of Registered Public Accounting Firm on Applying Agreed-Upon  
Procedures Related to an Entity's SIPC Assessment Reconciliation**

James I. Black & Company  
311 South Florida Avenue  
Lakeland, Florida 33801

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments [General Assessment Reconciliation (Form SIPC-7)] to the Securities Investor Protection Corporation (SIPC) for the Year Ended December 31, 2016, which were agreed to by James I. Black & Company and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and SIPC, solely to assist you and the other specified parties in evaluating James I. Black & Company's compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). James I. Black & Company's management is responsible for James I. Black & Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with standards of the Public Company Accounting Oversight Board (United States). The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries by agreeing amounts to image of canceled checks noting no difference;
2. Compared the amounts reported on the audited Form X-17A-5 for the year ended December 31, 2016, with the amounts reported in Form SIPC-7 for the year ended December 31, 2016, noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers by agreeing amounts to the income statement for the year ended December 31, 2016 and the respective quarterly FOCUS reports noting no differences;

4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers by reviewing the Form SIPC-7 worksheet supporting the adjustments noting no differences.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Hacker, Johnson & Smith PA".

HACKER, JOHNSON & SMITH PA  
Tampa, Florida  
February 15, 2017

**SIPC-7**

(33-REV 7/10)

**SECURITIES INVESTOR PROTECTION CORPORATION**

P.O. Box 92185 Washington, D.C. 20090-2185

202-371-8300

**General Assessment Reconciliation****SIPC-7**

(33-REV 7/10)

For the fiscal year ended 12/31/2016

(Read carefully the instructions in your Working Copy before completing this Form)

**TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS**

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

17\*17\*\*\*\*\*2120\*\*\*\*\*MIXED AADC220  
012077 FINRA DECJAMES I. BLACK & COMPANY  
311 S FLORIDA AVE  
LAKELAND, FL 33801-4623

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

**WORKING COPY**

2. A. General Assessment (item 2e from page 2)

\$ 98.99

B. Less payment made with SIPC-6 filed (exclude interest)

( 42.54 )07/15/2015

Date Paid

C. Less prior overpayment applied

( 0.00 )

D. Assessment balance due or (overpayment)

56.45E. Interest computed on late payment (see instruction E) for 0 days at 20% per annum0.00

F. Total assessment balance and interest due (or overpayment carried forward)

\$ 56.45

G. PAID WITH THIS FORM:

Check enclosed, payable to SIPC  
Total (must be same as F above)\$ 56.45

H. Overpayment carried forward

\$( 0.00 )

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

JAMES I. BLACK & COMPANY

(Name of Corporation, Partnership or other organization)

(Authorized Signature)

Dated the 18 day of JANUARY, 20 17CCO

(Title)

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

**SIPC REVIEWER**

Dates:

Postmarked

Received

Reviewed

Calculations

Documentation

Forward Copy

Exceptions:

Disposition of exceptions:

**DETERMINATION OF "SIPC NET OPERATING REVENUES"  
AND GENERAL ASSESSMENT**

Amounts for the fiscal period  
beginning 01/01/2016  
and ending 12/31/2016

Item No.

Eliminate cents

2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)

\$ 1,223,535

2b. Additions:

- (1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above.
- (2) Net loss from principal transactions in securities in trading accounts.
- (3) Net loss from principal transactions in commodities in trading accounts.
- (4) Interest and dividend expense deducted in determining item 2a.
- (5) Net loss from management of or participation in the underwriting or distribution of securities.
- (6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities.
- (7) Net loss from securities in investment accounts.

Total additions

2c. Deductions:

- (1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products.
- (2) Revenues from commodity transactions.
- (3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions.
- (4) Reimbursements for postage in connection with proxy solicitation.
- (5) Net gain from securities in investment accounts.
- (6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date.
- (7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act).
- (8) Other revenue not related either directly or indirectly to the securities business.  
(See Instruction C):

720,672

433,811

26,961

(Deductions in excess of \$100,000 require documentation)

- (9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income.

\$

- (ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960).

\$ 2,495

Enter the greater of line (i) or (ii)

2,495

Total deductions

1,183,939

2d. SIPC Net Operating Revenues

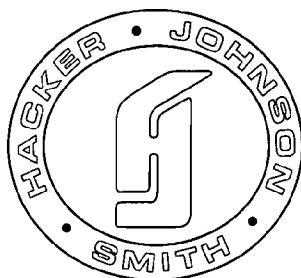
\$ 39,595

2e. General Assessment @ .0025

\$ 98.99

(to page 1, line 2.A.)





SEC  
Mail Processing  
Section

FEB 23 2017

Washington DC  
406

Independent AML Testing Report  
James I. Black & Company

Testing Period  
2016

## **2016 Independent AML Testing Report**

**James I. Black & Company**

### **EXECUTIVE SUMMARY**

Pursuant to FINRA Rule 3310(c), Lycra Consulting Inc. ("Lycra") performed independent testing of the Anti-Money Laundering ("AML") Compliance Program of James I. Black & Company ("JIB" or the "Firm"). Lycra's senior partner, Robert De Vito, performed the on-site portion of the testing on December 5<sup>th</sup>, 2016 and the final testing was completed as of the date hereof. Lycra compliments the Firm and its staff on the attitude toward complete compliance with the letter and spirit of FINRA Rule 3310 and the current AML laws, regulations and rules.

The "Testing Period" was the calendar year 2016. The following report details the examination process, areas examined and, where applicable, observations, notes and exceptions as well as corrective action to help keep the Firm in compliance.

In general, the Firm has implemented and administered its AML Compliance Program consistent with its design and in a manner designed to maintain compliance with current AML laws, regulations and rules.

While this report contains recommendations to the Firm that would improve the implementation and administration of its risk based AML Compliance Program, Lycra did not find evidence of any material violations of AML regulatory requirements.

### **EXAMINATION PROCESS**

Lycra utilizes a three part approach when performing independent testing for AML compliance:

- Interviews (initial and during the document review portion) with compliance personnel to test the knowledge and understanding of AML compliance requirements;
- A review of records and documentation evidencing compliance with specific AML compliance requirements both offsite and on site; and
- An Exit interview and review of observations and exceptions noted.

Lycra's AML Testing includes, at a minimum: (1) evaluating the overall integrity and effectiveness of the Firm's AML compliance program; (2) evaluating the Firm's procedures for BSA reporting and recordkeeping requirements; (3) evaluating the implementation and maintenance of the Firm's CIP; (4) evaluating the Firm's customer due diligence requirements; (5) evaluating our the Firm's transactions, with an emphasis on high-risk areas; (6) evaluating the adequacy of the Firm's staff training program; (7) evaluating the Firm's systems, whether automated or manual, for identifying suspicious activity; (8) evaluating the Firm's system for reporting suspicious activity; (9) evaluating the Firm's policy for reviewing accounts that

generate multiple SAR-SF filings (when applicable); and (10) evaluating the Firm's response to previously identified deficiencies.

### **INTERVIEWS WITH COMPLIANCE PERSONNEL**

Lycra performed interviews with Natasha Steadman, the Firm's AML Compliance Officer, to understand any changes in the nature of the Firm's business and overall approach to its AML Compliance Program. Ms. Steadman demonstrated an understanding of the Firm's compliance procedures and current AML laws, rules and regulations.

#### **Nature of Business.**

Lycra notes that the Firm engages in a general securities business as a self-clearing registered broker/dealer. The Firm maintains funded accounts for its clients and uses Goldman Sachs for its money market accounts and Wells Fargo as its processing bank where wires or any other monetary payments on behalf of its clients are processed. The Firm has approximately 1300 accounts and added approximately 100 new accounts in 2016. The Firm's overall customer base is driven by personal relationships via its Registered Representatives. Most new accounts are either opened by referral, rollover or as beneficiaries of existing customers. The customer base and business activities combine to provide a relatively narrow risk profile.

### **Review of Procedures, Records and Documentation**

Results of the review of specific procedures, records, documents and areas examined are set forth in this report. Detail on the documents and specific information reviewed as part of the independent testing is contained on the "Items Reviewed" list attached to this report. Except where noted, Lycra utilized a "sample" testing approach.

### **Observations on Review of Records and Documentation**

#### **AML Compliance Program**

Lycra reviewed the Firm's AML Compliance Program for consistency and compliance with current AML laws, rules and regulations, and any changes thereto since the prior AML Testing ("AML Rules"). Based on the nature of the Firm's business (outlined above), the AML Compliance Program appeared to be adequately designed to ensure compliance with AML Rules. The AML Compliance Program was updated and approved in writing by Gerald Black during the Testing Period.

#### ***Recommended Corrective Action:***

- None.

#### **Designation of the AML Compliance Person and Duties**

The AML Compliance Program clearly designates Natasha Steadman as the AML Compliance Officer.

*Recommended Corrective Action:*

- None.

**Giving AML Information to Federal Law Enforcement Agencies and Other Financial Institutions**

FinCEN Requests Under USA PATRIOT Act Section 314(a)

The Firm is receiving requests from FinCEN pursuant to Section 314(a) and found no matching information during the Testing Period.

The Firm evidenced timely reviews of FinCEN requests. The Firm maintains a record of the request by list. The list is maintained in a secure location to ensure confidentiality.

*Recommended Corrective Action:*

- None.

National Security Letters

The Firm's compliance staff confirmed that its associated persons are aware of the confidential nature of National Security Letters and the requirements for responding to them; however, the firm did not receive any during the Testing Period.

*Recommended Corrective Action:*

- None.

Grand Jury Subpoenas

The Firm's compliance staff confirmed that its associated persons are aware of the confidential nature of Grand Jury Subpoenas and the requirements for responding but received none during the Testing Period.

*Recommended Corrective Action:*

- None.

Sharing Information with Other Financial Institutions

Other than periodic FinCEN requests made to all US financial firms, no other requests for information were received.

The AML Compliance Officer stated that the Firm did not share information with any other

financial institutions pursuant to Section 314(b) but is aware of the requirement to file initial and annual notices with FinCEN and to verify that the other financial institution has made such filings as well before sharing such information.

*Recommended Corrective Action:*

- None.

Joint SAR Filings

The AML Compliance Officer confirmed that Firm's associated persons are aware of the requirements for joint SAR Filings and the confidential nature of SAR filings.

The Firm has no parent company.

*Recommended Corrective Action:*

- None.

**Checking the Office of Foreign Assets Controls (OFAC) Listings**

In the sample reviewed the Firm performed an OFAC check before establishing each new customer relationship. A record of the search was maintained as part of the customers new account file. In addition, the Firm completed an annual review of all customer accounts.

*Recommended Corrective Action:*

- None.

**Customer Identification Program**

The Firm maintains a written Customer Identification Program ("CIP") as part of its AML Compliance Program that appears consistent with current AML Rules. The Firm's AML Compliance Officer represented that it provided Lycra all accounts opened during the Testing Period. For all open accounts sampled, the Firm obtained the customer's name, date of birth, address and identification number.

According to the Firm's AML Compliance Officer, no customer refused to provide identification information.

*Recommended Corrective Action:*

- None.

**Verification**

The Firm obtained and maintained documentation sufficient to verify the identity of all entities and individual retail accounts opened in 2016 which were tested by Lycra.

The Firm obtains copies of government issued photo identification cards for each individual account. Corporate and entity accounts are verified via official state websites (e.g., Secretary of State showing formation of entity).

During the month of February of the review period the Firm's CCO/AMLCO had to attend an unforeseen family event and final approval of accounts and verification were completed upon the CCO/AMLCO's return after attendance. Lycra commends the Firm and the CCO/AMLCO on the dedication by the CCO/AMLCO to ensure timely reviews of account opening documents.

*Recommended Corrective Action:*

- None.

**CIP Notification**

The Firm communicates the required CIP Notification prior to opening each account as part of the Firm's New Account Form.

*Recommended Corrective Action:*

- None.

**Higher Risk General Customer Due Diligence**

The Firm did not identify any higher risk accounts during the testing period. Given the Firm's business model and target customer base, such results are reasonable.

*Recommended Corrective Action:*

- None.

**Correspondent Accounts for Foreign Shell Banks**

The Firm provided Lycra with a list represented as the Firm's entire customer base of funded accounts. Lycra reviewed the list and did not find any account that could be considered a foreign bank.

*Recommended Action:*

- None.

**Enhanced Due Diligence for Foreign Financial Institutions**

The Firm provided Lycra with a list represented as the Firm's entire customer base of funded accounts. Lycra reviewed the list and did not find any account that could be considered a foreign financial institution.

*Recommended Action:*

- None.

**Enhanced Due Diligence for Private Banking Accounts/Senior Foreign Political Figures**

The Firm represented that it does not open or maintain private banking accounts. Lycra found no evidence that any private banking accounts were opened in the Testing Period. Further, the Firm provided Lycra with a list represented as the Firm's entire customer base of funded accounts. Lycra reviewed the list and did not find any account that could be considered a foreign political figure.

*Recommended Corrective Action:*

- Not applicable.

**Compliance with Special Measures – Section 311**

The Firm and its AML principals are aware of the requirements of Section 311. However, Lycra's review revealed that the Firm does not maintain accounts for any foreign banks or foreign financial institutions. Accordingly, at this time, the Firm has no further requirements under Section 311.

*Recommended Corrective Action:*

- Not applicable.

**Monitoring Accounts for Suspicious Activity (including any "Red Flags")**

Lycra reviewed several areas to verify that the Firm is monitoring for suspicious activities, including: *Monetary Transactions, Trading Activity and Customer Account Information*. The Firm uses its own proprietary systems to monitor for suspicious and unusual activity.

*Monetary Transactions.*

Lycra reviewed a random sample of receipts, CTRs, wires and journals that the Firm processed on behalf of the Firm's customers. Lycra found evidence of proper principal oversight via review and approval of daily reports that include all money movements. Lycra found no evidence of suspicious activity with any of the monetary transactions related to the Firm's securities business.

Lycra found no money laundering "Red Flags" or other suspicious activity in the monetary transactions reviewed.

*Recommended Corrective Action:*

- None.



Trading and Certificate Activity.

Lycra reviewed a random sample of the Firm's physical securities received and trading activity.

Lycra found no evidence of any suspicious activity that could be related to the Firm's trading activity or physical securities received. Lycra found evidence of principal review of trading activity via a "Review and Compliance Log" as well as principal review on the physical certificate documentation via review and approval of daily reports that include all securities received.

*Recommended Corrective Action:*

- None

Customer Account Information.

Lycra found no evidence of any money laundering "Red Flags" in the gathering of customer information. The Firm is obtaining and reviewing information necessary to monitor for suspicious activity in customer account information. Evidence of principal review was maintained in the new account information.

*Recommended Corrective Action:*

- None

**Suspicious Transactions and BSA Reporting**

All of the Firm's associated persons are aware of its SAR filing responsibilities and the requirement of confidentiality.

***NOTE: LYCRA DOES NOT REQUEST OR RECEIVE INFORMATION REGARDING THE FILING OF SARs.***

*Recommended Corrective Action:*

- None

**Currency Transaction Reports**

The Firm's AML Compliance Officer represented that the Firm occasionally receives cash deposits. The Firm maintains a receipts blotter and completes a CTR form report for any deposits in excess of \$4,000 and maintains the form on file. In the event the cash receipt is in excess of \$10,000, the Firm actually files the CTR form. Lycra found no evidence of any deposits of cash in excess of \$10,000 or "structured transactions".

*Recommended Corrective Action:*

- Not applicable.

### **Currency and Monetary Instrument Transportation Reports**

The Firm's AML Compliance Officer represented that the Firm was not involved in any transaction where cash or cash-like monetary instruments of more than \$10,000 were physically transported into or outside of the US. As a result, the Firm's principals represented that the Firm filed no CMIRs in the Testing Period. Lycra found no evidence of any such transaction.

#### *Recommended Corrective Action:*

- Not applicable.

### **Foreign Bank and Financial Accounts**

The Firm's AML Compliance Officer represented that the Firm did not have a financial interest in or signature authority over any bank or financial account in a foreign country during the Testing Period. Lycra found no evidence of such an interest or signature authority.

#### *Recommended Corrective Action:*

- Not applicable.

### **Monetary Instrument Purchases**

The Firm's AML Compliance Officer represented that the Firm did not issue bank checks or drafts, cashier's checks, money orders or traveler's checks during the Testing Period. Lycra found no evidence of any such transactions.

#### *Recommended Corrective Action:*

- Not applicable.

### **Fund Transfer Rules and Treasury Joint and Travel Rules**

The Firm provided a random sample of customer wires processed during the Testing Period. A review of such revealed that the Firm is obtaining and maintaining the required information with appropriate principal oversight.

#### *Recommended Corrective Action:*

- None.

### **AML Record Keeping**

The Firm's associated persons are aware of current AML Record Keeping responsibilities. Except as specifically noted in this Report, the Firm properly created and maintained required AML Records.

*Recommended Corrective Action:*

- None.

**Clearing/Introducing Firm Relationships & Sharing Information**

The Firm is aware of the requirements for sharing information with other financial institutions. However, the Firm is self-clearing and the AML Compliance Officer represented that the Firm did not share information with any other financial institution during the Testing Period.

*Recommended Corrective Action:*

- None.

**AML Training**

The Firm presented evidence that it had performed AML Training during the Testing Period for its registered representatives and principals.

*Recommended Corrective Action:*

- None.

**AML Testing**

Lycra Consulting Inc. has been engaged to perform the Firm's annual independent AML testing.

*Recommended Corrective Action:*

- None.

**Monitoring Employee Conduct and Accounts**

The Firm's AML Compliance Officer and President are the principals designated to review employee conduct and accounts. The compliance staff is aware of the responsibilities to monitor employee conduct and accounts and has represented that the Firm's AML Compliance Program is applied to employee conduct and accounts in the same manner as applied to other customer accounts. The AML Compliance Officer reviews the President's accounts and the President is designated to review the AML Compliance Officer's accounts, if any.

*Recommended Corrective Action:*

- None.

**Confidential Reporting of AML Non-Compliance**

The AML Compliance Officer represented that Firm's associated persons are aware of the

Firm's responsibilities to ensure that employees who report AML violations are protected from retaliation.

*Recommended Corrective Action:*

- None.

#### **Additional Risk Areas**

The Firm's AML Compliance Officer indicated that she has reviewed all areas of the Firm's business to identify potential money laundering risks that may not be covered in its AML Compliance Program. Lycra reviewed the Firm's business and found no other potential money laundering risks that may not be covered in its AML Compliance Program.

*Recommended Corrective Action:*

- None.

#### **Senior Manager Approval**

The Firm's senior management has approved the AML Compliance Program in writing during the Testing Period.

*Recommended Corrective Action:*

- None.

#### **Cybersecurity**

The Firm identified no cybersecurity threats as they relate to AML. The Firm's AML Compliance person reviews each monetary request and verifies its legitimacy either verbally or by some form of correspondence with the counterparty to transactions. Given the Firm's limited size and personal knowledge of its clientele Lycra believes this risk based approach is adequate. Lycra reminds the Firm to continue to monitor for cybersecurity risk as it pertains to AML as the topic is evolving.

#### **EXIT INTERVIEW**

Lycra performed an exit interview with the Firm's AML Compliance Officer during which all observations were discussed. Again, the Firm's principal expressed a strong desire to maintain and achieve complete compliance with all AML requirements and indicated that where appropriate, corrective action would be taken. In addition, Lycra and staff discussed the potential new impact of regulation passed in 2016 regarding ongoing CDD and beneficial ownership. Ms. Steadman verified her dedication to implement procedure to address new policy concerns given the upcoming changes in regulation in 2018.

**CONFIDENTIALITY**

Lycra and its staff acknowledge the Firm's requirement to maintain its customer and Firm information in strict confidence pursuant to Regulation SP, FINRA Rules as well as other related federal and state laws, regulations and rules ("Confidentiality Requirements"). Lycra and its staff do not retain or make records of any customer identifying information, personal financial information or other information that may be considered personal or of a sensitive nature. Lycra and its staff hereby agree to keep all information obtained during the course of its AML Testing strictly confidential and to comply with the Firm's Confidentiality Requirements as well as the Firm's internal policies regarding confidentiality.

AML Testing Completed: December 13, 2016.

***Lycra Consulting Inc.***  
*Wellington, Florida*

**Items Reviewed**  
Testing Period: 2016

1. Copy of AML Compliance Program and written Customer Identification Program (if not a part thereof).
2. Copy of most recent FINRA examination/audit report and SEC examination/audit report.
3. Customer list (prepared sequentially by account number) which includes each customer's name and address.
4. List of accounts opened during the Testing Period (prepared sequentially by account number) which includes each customer's name and address.
5. Account files for all new clients accepted during the Testing Period (if more than 120 accounts, please limit to 10 accounts for each month in the Testing Period). *NOTE: Account files should include all required CIP verification documents and evidence of OFAC checks.*
6. Daily trade blotters through 10.31.2016 (customer and firm trades, if applicable), with evidence of principal review.
7. Physical securities received and delivered blotters for the Testing Period.
8. Schedule/blotter with all Rule 144 transactions during the Testing Period. Please include due diligence and supporting documentation (e.g., shareholder representation letters, attorney opinion letters, documents evidencing acquisition by the selling shareholder, etc.).
9. All certifications (and any updates) submitted by foreign financial institutions during the Testing Period, if any.
10. Records of daily cash activity for the Testing Period (e.g., wire transfers, checks received and delivered, ACH transfers, etc.). *NOTE: If less than 20 records, include Q2 of the Testing Period.*
11. All customer requests to journal funds between accounts during the Testing Period (a/k/a LOAs).
12. All Currency Transaction Reports filed during the Testing Period.
13. Evidence that the Company reviewed its files for FinCEN requests during the Testing Period.
14. A copy of Company's "Customer Identification Program Notice" and evidence of the methods of delivery.
15. Evidence of AML training at least annually during the Testing Period.
16. Evidence that the Company updated its AML Compliance Officer designation/contact information during the Testing Period.